

Message Text

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ACTION AID-05

INFO OCT-01 EUR-12 NEA-09 ISO-00 SP-02 EB-07 NSC-05

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 8047

INFO AMCONSUL BOMBAY

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AMEMBASSY DACCA

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AMEMBASSY KATHMANDU

AMEMBASSY LONDON

OECD PARIS 1297

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E.O. 11652: N/A

TAGS: EAID, EGEN, EFIN, IN

SUBJ: WORLD BANK CALLS FOR INDIAN ECONOMIC POLICY CHANGES:

MEANTIME MUCH AID NEEDED

1. ON APRIL 9, WORLD BANK RESIDENT REPRESENTATIVE, W.M. GILMARTIN, HELD THE ANNUAL BRIEFING SESSION FOR DIPLOMATS FROM CONSORTIUM COUNTRIES WHICH PROCEEDS ISSUANCE OF THE BANK'S ANNUAL REPORT ON INDIA. GILMARTIN SAID THAT THE REPORT THIS YEAR, WHICH SHOULD BE AVAILABLE IN WASHINGTON IN MAY, IS VERY MUCH SHORTER THAN PREVIOUSLY -- ABOUT 60 PAGES PLUS AN APPENDIX.

2. AFTER REVIEWING LAGGIN PERFORMANCE OF INDIAN INDUSTRY AND AGRICULTURE OVER PAST SEVERAL YEARS, GILMARTIN, TO OUR PLEASANT SUPRISE, SAID THERE IS AN OBVIOUS INFERENCE THAT GOI ECONOMIC

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POLICY BEARS A LARGE PART OF THE RESPONSIBILITY AND NEEDS TO BE

REORIENTED. HE SAID THIS YEAR'S REPORT SUGGESTS WAYS IN WHICH IT SHOULD BE REORIENTED. (IN THE PAST, THE REPORT HAS TENDED TO TAKE GOI POLICY AS DATA). HE CITED AS EXAMPLES THE DESIRABILITY OF RELAXING OVER-STRINGENT CONTROLS AND THE NEED TO EMPHASIZE EXPORT PROMOTION RATHER THAN IMPORT SUBSTITUTION WHICH HAS ABOUT RUN ITS COURSE AND CAUSED DISORTIONS IN THE INDIAN ECONOMY. GILMARTIN ALSO MENTIONED AS PRESSING NEED FOR SHORT RUN ATTEMPTS TO ELIMINATE BOTTLENECKS IN SUCH THINGS AS ELECTRIC POWER AND FERTILIZER PRODUCTION.

3. ALTHOUGH IN THE LONGER TERM THE BANK SEEMS TO BE TURNING TO EXPORTS RATHER THAN FOREIGN AID AS THE SOURCE OF NEEDED FOREIGN EXCHANGE, FOR NOW THE BANK STILL SEES A LARGE GAP BETWEEN EXTERNAL RESOURCE NEEDS AND AVAILABILITIES THAT MUST BE MET THROUGH AID. THE FINAL FIGURES AR NOT YET OUT, BUT THE BANK VERY TENTATIVELY EXPECTS THAT EXPORTS IN INDIAN FISCAL YEAR 1974/75 WERE ABOUT \$3.9 BILLION AND IMPORTS WERE ABOUT \$5.8 BILLION. BOTH IMPORTS AND EXPORTS ARE LARGER THAN THE BANK HAD ORIGINALLY FORECAST BUT THE DEFICIT DOES NOT CHANGE MUCH FOR WHAT IT HAD FORECAST. FOR FISCAL YEAR 1975/76, THE BANK FORECAST AN INCREASE IN EXPORTS OF ABOUT 5 PERCENT TO \$4.1 BILLION AND AN INCREASE IN IMPORTS 5 PERCENT TO \$6.1 BILLION. THE IMPORTS FORECAST INCLUDES 6 MILLION TONS OF FOOD, 17 MILLION TONS OF PETROLEUM AND PRODUCTS AND 1.6 MILLION NUTRIENT TONS OF FERTILIZER. DEBT SERVICE INCLUDING REPAYMENTS TO THE IMF WILL BE \$800 MILLION. DISBURSEMENTS FROM THE AID PIPELINE AS OF MARCH 31, 1975 OF \$1.1 BILLION AND AN ESTIMATED \$200 MILLION NET SURPLUS FROM MISCELLANEOUS SERVICES AND CAPTIWY RECEIPTS ARE ESTIMATED TO REDUCE THE DEFICIT TO BE FINANCED TO ABOUT \$1.5 BILLION. SOME FINANCING WILL COME FROM THE ARAB WORLD AND SOME FROM THE IMF OIL FACILITY. HOWEVER, ACCORDING TO THE BANK, THE REMAINING LARGE GAP WILL HAVE TO BE FINANCED THROUGH OTHER FORMS OF INCREASED AID--MEANING, GILMARTIN MADE CLEAR, THE CONSORTIUM.

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